



HOUSE BUDGET COMMITTEE

Democratic Caucus

The Honorable John M. Spratt Jr. ■ Ranking Democratic Member

B-71 Cannon HOB ■ Washington, DC 20515 ■ 202-226-7200 ■ www.house.gov/budget_democrats

July 16, 2002

“No one, as far as I know, really saw this [the drop in revenues relative to GDP] coming.”

OMB Director Mitchell Daniels
Press Conference, July 12, 2002

Why the Drop in Revenues Relative to GDP Should Not Have Surprised OMB

The Previous Administration's Caution

“The future is uncertain; and so our budget should always have something in hand, in case outcomes are unfavorable. We learned in the 1980s that betting the budget on an optimistic forecast and speculative policies is unwise. We learned in the 1990s that fiscal discipline works. We know that every day takes us closer to demographic developments whose occurrence is certain, but whose effects are profoundly uncertain. This is no time for another self-indulgent fiscal experiment; we should not rush to undertake *counter-productive* fiscal policy. We should stay with what works, and make allowances for the uncertainties just a few years in the future. That would best serve those who will follow us - a concept that somehow seems somewhat more vivid to me on this particular day.”

OMB Director Jacob J. Lew
Testimony before the Senate Budget Committee, January 19, 2001

Republicans' Over-Optimism Last Year

“There is not more than enough room for the President's tax relief plan. There is vastly more than enough room... Being, as I think a banker would look at it, over-reserved against the unknown, we have fully enough money left to give a refund to the American taxpayer... The budget is built on very conservative and cautious

assumptions... The revenue relative to GDP numbers are extremely cautious.”

Mitchell Daniels, Director of the Office of Management and Budget
White House Bulletin, February 28, 2001

“Fiscal responsibility used to be about as common in this town as Halley’s comet, but we put the tax-and-spend century behind us. We are here today to replace it with a century of surplus.”

House Majority Leader Richard Armey
Congressional Record, H1270, February 28, 2001

Ample Warning That the Republicans Left No Room for Error and Were Betting the Budget on the Stock Market

“CBO says that its current budget projections may be subject to even greater error than in the past...[saying] ‘The longer-term outlook is also unusually hard to discern at present.’...CBO calculates that there is about a one in five chance that the budget outside of Social Security and Medicare will be in deficit after 2003.”

Budget Talking Points
House Budget Committee Democrats, February 12, 2001

“One of the reasons for the growing budget surpluses over the past few years has been higher capital gains tax revenue as a result of the booming stock market....Mark Zandi, Chief Economist at Economy.com, explains, ‘We’ve had years of stock-juiced surpluses at all levels of government. But a flat equity market will quickly weigh on government’s good fiscal fortunes.’”

Ten-Year Budget Surplus Estimates Are Unreliable
House Budget Committee Democrats, March 12, 2001

“I hope that these blue-sky projections that total some \$5.6 trillion in surpluses over the next ten years will materialize. It will be a great bounty for all of us. But if they do not and if we pass this [budget] resolution, we can find ourselves right back in the red again in the blink of an economist’s eye.”

Representative John M. Spratt
Ranking Democrat, House Budget Committee
Congressional Record, March 28, 2001

“CBO’s recent budget re-estimates have shown a similar variation — which means that large re-estimates, perhaps in the opposite directions are possible....Over the past year alone, CBO has increased its surplus projection by

\$2.5 trillion. Over the past three years, CBO has increased its surplus projection by almost \$5 trillion....Similar re-estimates could occur again, going in either direction.”

Long-Term Budget Estimates Are Unreliable
House Budget Committee Democrats, May 24, 2001

“There are good reasons to expect that revisions of the surplus in coming months will be negative....[T]he amount of revenue generated by every dollar of GDP is likely to decline sharply in the short run and may not recover much in the long run. The ratio of revenues to GDP had risen to record levels, and until recently both OMB and CBO had assumed that it would retreat only modestly. However, with weaker growth of income tied to the stock market — like capital gains, stock options, executive compensation, and bonuses — the revenue from such sources may well reverse its earlier disproportionate growth. Even small changes in the ratio of revenues to GDP can have major impacts on the budget.”

Republican Stimulus Proposals Make a Bad Situation Worse
House Budget Committee Democrats, December 13, 2001

“The headline estimates of GDP growth and unemployment suggest that the recession was much milder than CBO had anticipated. However, taxable income seems to have taken a much more significant hit than the GDP figures suggest. And CBO received confirmation last week that the Bureau of Economic Analysis (BEA) significantly overestimated wage and salary income in 2001.”

CBO Director Dan Crippen
Testimony before the House Budget Committee, May 2, 2002

“Thus, Democrats already were arguing a year ago that the unusual run-up during the late 1990s of tax receipts per dollar of GDP could easily reverse, given the market decline unfolding at that time. Now, the sharply lower level of receipts in April 2002 appears to confirm this prediction. The largest component of the recent revenue shortfall is taxes on non-withheld income, where one would expect severe stock-market effects.”

Significant Downward Revisions of the 10-Year Surplus Won't Surprise Democrats
House Budget Committee Democrats, May 9, 2002